

# Simple Mathematics: South Carolina's State Property Tax Relief is Unsustainable

By Professor James Hite  
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Like many South Carolina homeowners, I have just paid my property taxes. Thanks to the local option sales tax in Pickens County, and the state rebates to property tax relief, the check I wrote was for less than half what I paid in property taxes two years ago. So, as a taxpayer, I am not complaining.

Yet, over the long term, this relief program probably is not sustainable.

Consider some actual numbers. Projected growth in state revenue for the fiscal year beginning July 1, 1997 is 3.6 percent. But to fund fully the property tax relief program in the new budget, the state will need to increase the allocation over the 1996-97 budget by 4.7 percent. So the property tax relief requirements are growing almost a third faster than state tax revenues. It doesn't take a mathematical genius to figure out that if those rates, or something close to them, continue, sooner or later, it will take all of the state's annual growth in new revenue, and more, to fund the property tax relief program.

Of course, these are numbers for only a single year. But there are good and sound reasons to expect that the value of owner-occupied residential property will grow indefinitely faster than the growth in state revenues. People tend to increase the proportion of their incomes they spend on homes as their incomes rise. So the average value of owner-occupied housing increases faster than incomes. But the state tax system is, at best, proportional, and perhaps mildly regressive. That means state tax revenues are not likely to grow any faster than income in the state, and perhaps a bit slower.

The property tax relief program is sustainable if, and only if, two things happen: 1) school millage is held constant, or nearly so, and 2) the existing cap on the tax credit is held at \$100,000 per owner-occupied house. The existing property tax relief program only obligates the state to cover the local school tax on the first \$100,000 of market value of owner-occupied houses. If school millage were held constant, and if the \$100,000 cap is kept in place, the annual increase in the amount the state has to set aside to fund the relief program will eventually decline to the rate of new house construction. But those are two big "ifs."

Reasonable people can argue over whether we spend enough on schools in South Carolina and whether we spend it well. But many school buildings are in bad repair and money must be found to fix them. Moreover, the costs of equipping classrooms with computers and other electronic media needed to make sure students are prepared for the world they graduate into continue to escalate. It will take a mighty effort and great managerial skill to hold down school millage without sacrificing educational quality in a state where such quality has often been in short supply. The safest bet is that school millage in South Carolina will increase, at least modestly.

The average owner-occupied house in South Carolina currently has a market value of less than \$100,000. Assuming modest inflation, it will be some time before the average value is equal to the existing cap on the property tax relief. So, even if school millage is level, the growth in the average market value of owner-occupied housing is almost certain to push upward the amount the state must lay out to fund property tax relief. Yet there are already political pressures to raise the cap to \$125,000, and the higher the cap, the longer the period of rapid growth in the annual funding requirements for the property tax relief program.

If the cap on market value of houses eligible for the relief is continually pushed up, mathematics takes over. If you dip water out of a pot faster than water is flowing in, the pot will become dry. And if we dip into the state treasury to fund property tax relief for homeowners faster than revenue flows into the treasury, the state will eventually run out of money.

So, let's enjoy it while it lasts. We can keep on with our current property tax relief program in South Carolina for several years if we are willing to devote more and more of the state budget to funding that relief, and risk gutting funding for law enforcement and corrections, public health, environmental protection, and higher education. No doubt, our political leaders will oblige us as long as there is any money left in the pot. But we should be warned: we are on a fiscal path that is unsustainable. There isn't any free lunch, and some time in the next century, we will have to pay up big time.

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